CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
STATEMENT OF INVESTMENT POLICY

FOR
EMERGING EQUITY MARKETS PRINCIPLES

October 12, 2007

This Policy is effective immediately upon adoption and supersedes all previous emerging equity markets principles policies.

I. PURPOSE

The CalPERS Total Fund Statement of Investment Policy, adopted by the CalPERS Investment Committee ("Committee"), sets forth CalPERS' overarching investment purposes and objectives with respect to all its investment programs.

This document sets forth the investment policy ("Policy") for Emerging Equity Markets Principles ("Principles"). The design of this Policy ensures that investors, managers, consultants, and other participants selected by the California Public Employees' Retirement System ("CalPERS") take prudent and careful action while evaluating emerging equity markets investments. Additionally, use of this policy assures sufficient flexibility in managing investment risks and returns associated with emerging equity markets investments.

This policy applies to CalPERS' emerging markets equity portfolios. The policy is not applicable to corporate governance emerging market funds which are addressed in the Statement of Investment Policy for Corporate Governance Investments.

II. STRATEGIC OBJECTIVE

The strategic objective is to delineate a principles based approach to investing in emerging equity markets by CalPERS to control risk and enhance return, and to improve practices in emerging markets.

III. RESPONSIBILITIES

A. CalPERS' Investment Staff ("Staff") is responsible for the following:

1. Review written policies and procedures of the Managers concerning compliance with the Policy.

2. Monitor reports from the Managers and CalPERS' custodian to ensure the equity markets program is in compliance with this Policy.

3. Report at least annually to the Committee on the implementation and results of this Policy.

B. The General Pension Consultant is responsible for monitoring, evaluating, and reporting periodically, to the Committee on the implementation and results of this policy.

C. The External Manager ("Manager") is responsible for all aspects of portfolio management as set forth in each Manager's contract with CalPERS and shall fulfill the following duties:

1. Responsible for country market and stock selection in accordance with this Policy and their guidelines.

2. Responsible for reporting on an annual basis to the Committee on the application of the Principles to the emerging markets portfolio managed for CalPERS.

IV. PERFORMANCE OBJECTIVE AND BENCHMARK

Not applicable.

V. EMERGING EQUITY MARKETS PRINCIPLES

CalPERS' emerging markets managers shall evaluate their investment in emerging markets according to the following Emerging Equity Market Principles:

A. Countries should be politically stable and making progress toward the development of basic democratic institutions and principles, including such things as: (1) a strong and impartial legal system; and (2) respect and enforcement of property and shareowner rights. Managers should take into account such things as:

1. <u>Political risk</u>: internal and external conflict; corruption; the military and religion in politics; law and order; ethnic tensions; democratic accountability; bureaucratic quality.

2. <u>Civil liberties</u>: freedom of expression, association and organization rights; rule of law and human rights; free trade unions and effective collective bargaining; personal autonomy and economic rights.

3. <u>Independent judiciary and legal protection</u>: an absence of irregular payments made to the judiciary; the extent to which there is a trusted legal framework that honors contracts, clearly delineates ownership and protects financial assets.

B. Countries and companies should promote transparency of information, including elements of a free press. Managers should take into account such things as:

1. Freedom of the press: structure of the news delivery system in a country; laws and their promulgation with respect to the influence of the news; the degree of political influence and control; economic influences on the news; the degree to which there are violations against the media with respect to physical violations and censorship.

2. Monetary and fiscal transparency: the extent to which governmental monetary and fiscal policies and implementation are publicly available in a clear and timely manner, in accordance with international standards.

3. Stock exchange listing requirements: stringency of stock exchange listing requirements with respect to frequency of financial reporting, the requirement of annual independent audits, and minimal financial viability.

4. Accounting standards: the extent to which U.S. GAAP or IAS is used in financial reporting; whether the country is a member of the International Accounting Standards Council.

C. Countries and companies should not engage in harmful labor practices or use child labor and should be in, or moving toward, compliance with the International Labor Organization (ILO) Declaration on the Fundamental Principles and Rights at Work. Managers should take into account such things as:

1. ILO ratification: whether the convention is ratified, not ratified, pending ratification or denounced.

2. Quality of enabling legislation: the extent to which the rights described in the ILO convention are protected by law.

3. Institutional capacity: the extent to which governmental administrative bodies with labor law enforcement responsibility exist at the national, regional and local level.

4. Effectiveness of implementation: evidence that enforcement procedures exist and are working effectively; evidence of a clear grievance process that is utilized and provides penalties that have deterrence value.

D. Companies should promote corporate social responsibility and long-term sustainability, including environmental sustainability, and should be in, or moving toward, compliance with the Global Sullivan Principles of Corporate Social Responsibility.

E. Countries should provide necessary market regulation and liquidity and evidence little to no repatriation risk. Potential market and currency volatility should be adequately rewarded. Managers should take into account such things as:

1. Market capitalization

2. Change in market capitalization

3. Average monthly trading volume

4. Growth in listed companies

5. Market volatility as measured by standard deviation

6. Return/risk ratio

F. Countries should support free market policies, openness to foreign investors, and legal protection for foreign investors. Managers should take into account such things as:

1. <u>Foreign investment</u>: degree to which there are restrictions on foreign ownership of local assets, repatriation restrictions or un-equal treatment of foreigners and locals under the law.

2. <u>Trade policy</u>: degree to which there are deterrents to free trade such as trade barriers and punitive tariffs.

3. <u>Banking and finance</u>: degree of government ownership of banks and allocation of credit; freedom financial institutions have to offer all types of financial services; protectionist banking regulations against foreigners.

G. Countries should have markets with reasonable trading and settlement proficiency and reasonable transaction costs. Managers should take into account such things as:

1. <u>Trading and settlement proficiency</u>: degree to which a country's trading and settlement is automated; success of the market in settling transactions in a timely, efficient manner.

2. Transaction costs: the costs associated with trading in a particular market, including stamp taxes and duties; amount of dividends and income taxes; capital gains taxes.

H. Companies should provide appropriate disclosure on environmental, social, and corporate governance issues.

VI. APPLICATION OF EMERGING EQUITY MARKETS PRINCIPLES

A. These Principles will be posted on the CalPERS website.

B. CalPERS' emerging markets managers are required to consider each of CalPERS' Principles, from a holistic or aggregate risk perspective, when making investments in emerging markets.

C. These Principles will be contained in the emerging markets managers' investment management guidelines, along with the United Nations Principles for Responsible Investment (PRI).

D. CalPERS' emerging markets managers will report annually to CalPERS on the incorporation of CalPERS' Principles in the management of the CalPERS portfolio. The annual report would include the following:

1. A list of the data sources used in evaluating each of CalPERS' Principles in each emerging market country in which the manager invests;

2. A description of how CalPERS' Principles are incorporated in the manager's investment process; and

3. A report of any countries that are cause for concern due to one or more of CalPERS' Principles, along with a rationale for any investments made or held in those countries.

E. For all of CalPERS' international investment managers that are permitted to invest in emerging markets, the emerging markets investment universe is limited to countries included in the FTSE All Emerging Index. Investments in countries outside this benchmark or in so-called "frontier markets" are not permitted.

VII. CALCULATIONS AND COMPUTATIONS

Investors, managers, consultants, and other participants selected by CalPERS shall make all calculations and computations on a market value basis as recorded by CalPERS’ Custodian.

VIII. GLOSSARY OF TERMS

Key words used in the policy are defined in CalPERS' Master Glossary of Terms.

Approved by the Policy Subcommittee: October 12, 2007